

OPEB amounts claimed in the annual access transmittals." Order at ¶ 105.1.

The OPEB amount claimed by Lincoln in its access filing was the TBO for current retirees only, which was taken from the enclosed document (attached as Exhibit A) provided by Lincoln's actuary. Since Lincoln claimed only the portion of the TBO related to current retirees, the age of its current workforce is not pertinent to the calculation of that amount. The assumptions relevant to the amount Lincoln claimed are summarized in the Exhibits of the attached actuaries' report.

The age at which employees retire is not relevant to the TBO amount Lincoln claimed since it is limited to current retirees and does not include any of the obligation related to current employees. Employees with 15 or more years of service earn the right to a continuation of benefits after they retire. The assumptions regarding current retirees participation in the various plans is summarized in Exhibit I of the actuaries' report.

The Commission also directed the LECs to "provide pertinent sections of their employee handbooks, contracts with unions, and other items that include statements to the employees concerning the company's ability to modify its post-employment benefits package." Order at ¶ 105.1. As the Commission is aware, Lincoln included the relevant section of its employee handbook concerning its ability to modify its post employment benefits package with its 1993 Annual Access Tariff. In the Order, the Commission

cited a sentence from that section which states "the company reserves the right to modify, suspend or terminate these benefits". (Order ¶ 28) The next sentence, which was also included in Lincoln's 1993 Annual Access Tariff filing but not cited by the Commission, states, "A change, however, will not deprive you of your rights to any benefits to which you have acquired a permanent right." (Lincoln 1993 Annual Access Tariff D&J at ¶ 15)

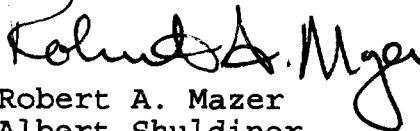
Since Lincoln only claimed exogenous treatment for the portion of the TBO related to current retirees, Lincoln believes the last sentence would, at a minimum, limit the control Lincoln has over this benefit for current retirees significantly short of the "unilateral power" (Order ¶ 28) termed by the Commission.

The second issue designated for investigation requires that Lincoln show that it has properly reallocated General Support Facilities ("GSF") costs in accordance with the Commission decision in Amendment of the Part 69 Allocation of General Support Facility Costs, CC Docket No. 92-222 FCC 93-238 (released May 19, 1993) ("GSF Order"). To comply with the GSF Order, Lincoln refiled its annual access tariff on June 17, 1993, with an effective date of July 1, 1993. Lincoln used its historical 1992 quarterly cost studies as the base to arrive at a GSF exogenous change. For simplification purposes, data from Lincoln's 1992 ARMIS 43-04 Report is used to explain the changes made in its cost studies to arrive at the GSF exogenous change.

Lines 1 through 8 of Exhibit GSF-1 (taken from Lincoln's 1993 Access Tariff Filing made on June 17, 1993) shows the development of the Part 69 allocation factor for General Support Facilities prior to July 1, 1993. Total Central Office Equipment (line 1), Information Origination/Termination Equipment (line 2), and Cable and Wire Facilities (line 3) are combined (line 4). Cable and Wire Facilities Category 1.3 (line 6) is then subtracted from the combined investment shown on line 4 to arrive at the investment (line 7) used to develop the GSF allocator (line 8). Beginning July 1, 1993, Lincoln developed the Part 69 allocation factor for GSF (line 5) by using the combined investment on line 4. To comply with the GSF Order, Lincoln used the same methodology to calculate the GSF allocation factor (line 5) in each of its quarterly base studies. The resultant revenue requirements were subtracted from the original base revenue requirements to arrive at the GSF exogenous change.

Respectfully submitted,

THE LINCOLN TELEPHONE AND
TELEGRAPH COMPANY



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July 27, 1993

Counsel for The Lincoln
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EXHIBIT A

January 8, 1993

Mr. Donald L. Piersol
Disbursement Accounting Manager
Lincoln Telephone and Telegraph Company
P.O. Box 81309
Lincoln, Nebraska 68501-1309

Dear Don:

Enclosed please find the results of our valuation of your post-retirement benefits program. The attached exhibits contain liabilities as of January 1, 1993 and cost amounts for 1993. These items were computed in accordance with Financial Accounting Standards Board (FASB) Statement No. 106 and assume adoption as of January 1, 1993.

LIABILITY AND COST MEASUREMENT

FASB No. 106 calculations begin with the measurement of the *Expected Post-retirement Benefit Obligation* (EPBO). This is the present value of the employer's share of costs for all future post-retirement benefits for current plan participants. The EPBO is an interim step in determining the more critical measure of obligation, the *Accumulated Post-retirement Benefit Obligation* (APBO). The APBO is the portion of the EPBO attributable to prior service. The apportionment of the EPBO into past, current and future service is determined by the attribution method. The attribution method required by the Statement results in full accrual of the liability by the date an employee attains full benefit eligibility.

The employer's annual expense—the *net periodic post-retirement benefit cost*—is defined analogously to the net periodic pension cost under FASB No. 87. As with the FASB pension cost, there are six components of the net periodic post-retirement benefit cost—service cost, interest cost, amortization of the transition obligation, return on plan assets, amortization of unrecognized prior service cost and gains or losses.

The service cost represents the portion of the EPBO attributable to the year. The interest cost is based on the APBO and the discount rate, adjusted for benefit payments. If the APBO at initial application (the transition obligation) is not recognized immediately, it would generally be amortized over 20 years. For a funded plan, the annual cost is reduced by the return on assets. A prior service cost amortization arises when there is an increase or decrease in the APBO because of a program amendment. As with pension expense calculations, amortization of gains and losses only occurs for amounts outside of a 10% of APBO corridor.

SUBSTANTIVE PLAN

A key objective of FASB No. 106 is that the accounting reflect the substantive plan—that is, the terms of the agreement between employee and employer as those terms are mutually understood.

Plan provisions for retiree health care benefits are often continuously evolving. In many cases, the written plan only reflects the deductibles, coinsurance limits and contribution rates currently in effect. However, the substantive plan also would recognize the expected future changes in cost sharing and plan features where the employer has a history of periodic changes in this area.

Under the Statement, the substantive plan may include future cost sharing changes if one of two conditions exist —

- The employer has a past practice of updating cost sharing provisions in accordance with an established policy that defines the employer's share of total cost.
- The employer has communicated to plan participants its intent to modify the existing cost sharing provisions at a specified time or when certain conditions exist.

Coverage under the program is summarized in Exhibit III.

ASSUMPTIONS

FASB No. 106 requires the use of explicit assumptions to determine the various liability amounts. Each significant assumption should reflect the employer's best estimate of future plan experience. Many of the same types of assumptions used to measure pension obligations are needed in measuring post-retirement benefits, including demographic assumptions (e.g., rates of retirement) and economic assumptions (e.g., the discount rate).

Special assumptions are needed to measure certain post-retirement benefits. For example, calculations of retiree health care benefit obligations will require: initial per-capita claims cost, health care cost trend rates, participant election assumptions and coverage by family status.

The trend rates utilized reflect what we feel to be a reasonable pattern of future cost increases. The discount rate and the participation and dependency assumptions are consistent with the Statement's intent. The demographic assumptions (retirement, death, etc.) are the same as those used for pension plan calculations. The per capita medical costs are based on the claim and insurance premium information provided. The assumptions are summarized in Exhibit II.

SUMMARY OF RESULTS

In completing the calculations we employed the prescribed methodology and participant data as of January 1, 1992 (adjusted to January 1, 1993). The results are summarized in Exhibit I.

The total 1993 cost includes expected 1993 retiree cash payments of about \$2,400,000. The amortization charge component of the 1993 periodic cost was computed recognizing the prior expense accrual of \$1,317,000.

Mr. Donald L. Piersol
January 8, 1993
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Please let me know when we can discuss this further.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bernie", written in dark ink.

Bernard E. Hartt, F.S.A.
Consulting Actuary

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Enc.

LINCOLN TELEPHONE COMPANY

EXHIBIT I

POST-RETIREMENT BENEFITS VALUATION

SUMMARY OF RESULTS FOR 1993

Item	Lincoln Telephone
<u>Accumulated Post-Retirement Benefit Obligation (as of 1/1/93)</u>	
Active employees - fully eligible	\$ 8,356,981
Active employees - not yet eligible	4,913,912
Retirees	<u>25,882,923</u>
Total Obligation	\$ 39,153,816
<u>Net Periodic Post-Retirement Benefit Cost (as of 12/31/93)</u>	
Service Cost	\$ 283,753
Interest Cost	3,573,649
Amortization	<u>1,891,842</u>
Total Cost	\$ 5,749,244

January 8, 1993

LINCOLN TELEPHONE COMPANY

EXHIBIT I

(Continued)

POST-RETIREMENT BENEFITS VALUATION

**ACCUMULATED POST-RETIREMENT BENEFIT OBLIGATION
AS OF JANUARY 1, 1993**

Category	Lincoln Telephone
Active Members:	
1) Medical/Dental	\$ 8,225,932
2) Part B Refund	911,810
3) Group Life	2,579,751
4) Survivor Benefit	<u>1,553,400</u>
5) Total Active	\$ 13,270,893
Retired Members:	
1) Medical/Dental	\$ 15,548,924
2) Part B Refund	2,075,438
3) Group Life	6,480,431
4) Survivor Benefit	<u>1,778,130</u>
5) Total Retired	\$ 25,882,923
Total Active and Retired	\$ 39,153,816

LINCOLN TELEPHONE COMPANY

EXHIBIT I

(Continued)

POST-RETIREMENT BENEFITS VALUATION

SUMMARY OF CURRENT PARTICIPATION

Benefit Program	Number of Members	
	<u>Active</u>	<u>Retired</u>
1) Medical/Dental	1,473	532
2) Medicare Part B Reimbursement	1,473	532
3) Survivor Benefit	1,473	532
4) Life Insurance		
a) Option A	325	60
b) Option B	808	466
c) Option C	<u>178</u>	<u>6</u>
d) Total	1,311	532

LINCOLN TELEPHONE COMPANY

EXHIBIT II

POST-RETIREMENT BENEFITS VALUATION

OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

Interest Rate: 9.5% per annum.

Salary Increase: 4% per annum.

Separation Before Retirement:

Age	Annual Rates of		
	Withdrawal	Death	
		Male	Female
25	.035	.0007	.0004
30	.020	.0007	.0006
35	.011	.0010	.0008
40	.007	.0020	.0013
45	.005	.0034	.0021
50	.005	.0062	.0031
55	.005	.0112	.0042
60	—	.0170	.0063
62	—	.0194	.0077

Normal and Early Retirement:

Age	Annual Rate	
	Male	Female
55	.07	.08
56	.05	.05
57	.05	.07
58	.06	.08
59	.06	.10
60	.06	.12
61	.08	.20
62	.30	.40
63	.20	.30
64	.20	.30
65	1.00	1.00

LINCOLN TELEPHONE COMPANY

EXHIBIT II (Continued)

POST-RETIREMENT BENEFITS VALUATION

OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

Death After Retirement: George B. Buck 1979 Male and Female Mortality Tables.

Valuation Method: Projected unit credit method with benefits attributed ratably from date of hire to the first eligibility date.

Medicare Part B Premium Increase: 4.5% per annum.

Annual Health Care Cost Increase:

<u>Year</u>	<u>Under 65</u>	<u>Over 65</u>
1994	13.0%	11.5%
1995	12.0%	12.5%
1996	11.5%	12.0%
1997	11.0%	11.0%
1998	10.0%	10.0%
1999	9.0%	9.0%
2000	8.0%	8.0%
2001	7.0%	7.0%
2002+	6.5%	6.5%

Per Capita Retiree Monthly Health Care Costs for 1993:

<u>Category</u>	<u>Medical</u>	<u>Dental</u>	<u>Medicare Part B</u>
Under age 65	\$ 204.57	\$ 9.18	\$ 0.00
Age 65 and over	\$ 108.44	\$ 9.18	\$ 36.60

Participation: 90% of eligible future retirees will elect coverage.

Spouse Benefits: 25% of future retirees will elect spouse coverage.

LINCOLN TELEPHONE COMPANY

EXHIBIT III

RETIREE BENEFITS

PROVISION	DESCRIPTION
ELIGIBILITY	Employees retiring directly from the Company with 15 years of service; dependent coverage ceases at employees' death.
HEALTH CARE	Active employee plan.
COB	With Medicare
MEDICARE PART B	Employee premium reimbursed (frozen in 1995 for post 10/15/95 retirement)
DENTAL BENEFITS	Active plan, without dependent orthodontia
DEATH BENEFITS	Active group life and survivor benefit plans
RETIREE CONTRIBUTIONS	Medical/dental (retirements prior to 10/15/95) - none for employee, 10% of spouse dental cost. Medical/dental (retirements 10/15/95 and later) - excess over Company cost as of 10/15/95. Life Insurance - \$.35/mo., \$.35/mo. per \$1,000 or \$.50/mo. per \$1,000 of coverage over \$2,000.

January 8, 1993

REALLOCATION OF GENERAL SUPPORT FACILITIES COST

	Interstate (1992 43-04 column d)	Common Line (1992 43-04 column i)	Traffic Sensitive (1992 43-04 column n)	Special Access (1992 43-04 column o)	Billing & Collection (1992 43-04 column q)	IX (1992 43-04 column r)
1 Total COE (1992 43-04, row 1410)	44,173	1,835	38,132	3,051	0	1,156
2 Total IOT (1992 43-04, row 1440)	498	498	0	0	0	0
3 Total C&WF (1992 43-04, row 1530)	52,833	39,582	7,001	6,236	0	13
4 Total COE, IOT, C&WF	97,504	41,915	45,133	9,287	0	1,169
5 Allocation of line 4	100.0000%	42.9880%	46.2884%	9.5247%	0.0000%	1.1989%
6 C&WF Category 1.3 (1992 43-04, row 1455, col d)	39,582	39,582	0	0	0	0
7 Total COE, IOT, C&WF excluding 1.3 (line 4 - line 5) (same as 1992 43-04, row 1003)	57,922	2,333	45,133	9,287	0	1,169
8 Allocation of line 7	100.0000%	4.0278%	77.9203%	16.0337%	0.0000%	2.0182%
9 GSF allocated by line 8 (same as 1992 43-04, row 1004)	10,539	424	8,212	1,690	0	213
10 GSF allocated by line 5 (per CC Docket No. 92-222)	10,539	4,531	4,878	1,004	0	126